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SUBJECT: VIETNAM'S SOUTHERN ECONOMIC TRIANGLE SUCCESS

1. (SBU) Summary: Consul General and ConGen team traveled to Dong Nai and Binh Duong provinces to examine the two provinces' economic performance that is double the national average. Local officials credit their economic success to 1990's policy decisions creating the southern economic zones. In our view what separates these provinces is the leadership of local officials and their investor-friendly attitude. Provincial authorities, particularly in Binh Duong, also appear to extend this "laissez faire" approach to religious freedom issues. Despite the two provinces' track records and Hanoi's apparent encouragement, other provinces are slow to follow Binh Duong and Dong Nai's lead. Risk-taking is still not the norm for most provincial leaders. End Summary.

2. (SBU) Over the past decade, the provinces of Dong Nai and Binh Duong, adjacent to HCMC, have consistently grown at double Vietnam's national average. Other provinces with comparable proximity to HCMC have not kept pace. To better understand what underpins this success and to obtain investment information for American businesses, the CG and Econ, Pol, Consular and FCS officers visited Dong Nai and Binh Duong Provinces on November 10 and November 23, respectively.

Dong Nai: "we should walk together with business"

3. (SBU) The Chairman of the People's Committee of Dong Nai, the Director of the Department of Planning and Investment (DPI), and the Deputy Head of the Dong Nai Industrial Zone Authority (IZA) emphasized their firm commitment to promoting a business-friendly environment in the province. They said that the GVN's economic reforms in the late 1980s and early 1990s had given them the impetus and legal foundation to act. They credited their proximity to HCMC's markets, airport, and ports as a catalyst for the province's growth. Dong Nai also has pre 1975 experience with industry. Bien Hoa 1 Industrial Zone was established as Vietnam's first industrial zone in 1963 and was well positioned to restart Vietnamese industrialization when Doi Moi began in 1986.

4. (SBU) According to the province's Chairman, Mr. Vo Van Mot, Dong Nai Province is able to maintain a high growth rate averaging 12-13 percent per year because of rapid growth in the industrial sector. In 2003, the industrial sector -- half the local economy -- grew 19 percent. Services, which comprise a quarter of the Dong Nai economy, grew at 12 percent in 2003. Dong Nai is home to 3,141 domestic invested projects and 570 Foreign Direct Investment (FDI) projects.

5. (SBU) The Dong Nai officials said that, to sustain their success, the Department of Planning and Investment (DPI) and the Industrial Zone Authority, with the assistance of the People's Committee, often amend regulations to make them more favorable to investors. Dong Nai's DPI routinely interacts with investors to provide information on investment, facilitate operations, and to resolve problems. Chairman Vo told the CG that the province advocates on behalf of investors -- foreign and domestic -- with the central government when the issue is beyond their local control.

6. (SBU) Calling FDI an "integral part of our economy," Chairman Vo said he was not satisfied with the province's current FDI stock. While large by Vietnamese standards, in real terms FDI investment is modest, especially compared to China. He acknowledged that private business needs better access to capital markets and that restructuring of SOEs remains a problem. According to the Chairman, SOEs still hold the largest share of the province's economy, although private enterprise has been growing more quickly.

7. (SBU) Provincial officials also briefed the CG on a new airport initiative. Tan Son Nhut Airport in Ho Chi Minh City is expected to reach full capacity by 2012. As a result, the Southern Airports Authority (SAA) has proposed building a new international airport at Long Thanh in Dong Nai Province, eventually becoming the sole international airport for the region. According to the Dong Nai DPI

Director, construction will begin in 2010. However, the SAA is still looking for potential investors and has yet to undertake a feasibility study. In addition to the new airport, Dong Nai is planning to relocate one of Ho Chi Minh City's major seaports to the province.

Binh Duong: Success Breeds Success

18. (SBU) As in Dong Nai, provincial leaders in Binh Duong province credited GVN policies for creating conditions that allowed them to achieve a nearly 15 percent growth rate last year. According to the Binh Duong People's Committee, the province has attracted 868 FDI projects from 34 countries, with a total investment value of USD 4.1 billion, about 9 percent of Vietnam's entire FDI stock. In 2003, the province attracted 135 new FDI projects, while another 106 foreign investors increased their capital investment for a total capital investment of USD 458 million. There are 26 U.S.-linked FDI projects in Binh Duong totaling USD 200 million, roughly 17 percent of the total U.S. FDI outlay in Vietnam. These investments range from several hundred thousand dollars to 80 million dollars, according to People's Committee Chairman Nguyen Hoang Son.

19. (SBU) While giving Hanoi the lion's share of the credit, Chairman Son said Binh Duong had been able to attract investors because the province has a cooperative attitude and is willing to learn from foreign investors. He told the CG that the province's focus is to simplify procedures and address investor concerns. The province recognizes that building an investor-friendly reputation will make it easier to attract greater investment. In this regard, Binh Duong has organized its own overseas trade missions to attract FDI.

110. (SBU) Provincial leaders also emphasized that while FDI gives the province valuable cachet and foreign know-how, they also have been working hard to attract domestic investment. In recent years domestic investment has begun to outstrip FDI in the province. Chairman Son added that Hanoi has begun to recognize Binh Duong's economic achievements and has recommended that other provinces visit to copy Binh Duong's best practices. It was up to the leadership of a particular province to follow suit, he said. (Note: The former head of the Communist Party in Binh Duong, Nguyen Minh Triet, was promoted to the Politburo and to lead the HCMC Party Committee after helping guide Binh Duong's economic development in the early 1990s. End note.)

American Investors Satisfied

111. (SBU) Managers of U.S.-affiliated companies in both provinces praised provincial leadership for its transparency and efficiency. They noted that the inflow of domestic and foreign investment was creating upward pressure on salaries, particularly for management-level positions. The investment also has exhausted the local labor market. Today industry uses recruiters to hire employees from the Mekong Delta or central Vietnam. However, despite the added costs, the two provinces remained the business representatives' first choice for any new investment in Vietnam.

112. (SBU) In meetings, provincial authorities were open to new ideas and input on how to attract greater American investment. The CG suggested several areas of improvement, including improved legal transparency and intellectual property rights protection. He also encouraged the provinces' leaders to urge the GVN to conclude negotiations for WTO accession.

Freedom of Religion

113. (SBU) Binh Duong also appeared to take a more progressive approach to religious affairs than do most other provinces. The provincial Head of the Committee for Religious Affairs (CRA) and the Deputy Director of the Ministry of Public Security (MPS) told us that they recognized that religious freedom issues were very sensitive. They were consulting with local religious leaders, including members of the nascent house church movement in province, about the Ordinance on Religion. Binh Duong MPS and CRA officials told us that they had no plans to use the law to close house churches, but would work to encourage house churches to register their operations under the new legal framework. We later met with the leader of a 200-member house church in Binh Duong who told us that, in contrast to prior years, her church has faced no police harassment in 2004. She added that over the past year, she had been able to develop a good working relationship with local police and the CRA and was beginning to think about the process of registration under the new law.

114. (SBU) The outgoing Bishop of Dong Nai, Phaolo Maria

Nguyen Minh Nhat, told us that relations between the Church and the government in the province are gradually improving. In particular, the Bishop said that much of the mutual suspicion that existed between Church and State in the years after unification had dissipated. He said that the next day, the church would celebrate the investiture of its new Bishop -- at least 3,000 persons were expected to attend the ceremony. (Note: With one million believers, the Dong Nai - Binh Duong - Vung Tau diocese is the largest in Vietnam. Many are refugee families from the former Communist-controlled North Vietnam who were resettled during partition in 1954.) As in other provinces in southern Vietnam, the Dong Nai diocese is looking forward to testing provisions of the Ordinance on Religion that increase its autonomy, such as the right to appoint and transfer priests.

15. (SBU) In contrast to his counterpart in Binh Duong, the CRA Chairman in Dong Nai told us that he planned to enforce provisions in the new legal framework on religion that ban the operation of religious organizations that are not registered with the Government. However, to date, we have not received any reports of local authorities using the law to crack down on house churches in Dong Nai province.

16. (SBU) Comment: Dong Nai and Binh Duong Provinces are doing well by any measure. Both provinces engineered an almost complete transformation of their economies from predominantly agrarian to overwhelmingly industrial and services-based in as little as 10-15 years. The key to their success is leadership. Other provinces have similar proximity to HCMC or other ports and airports; none have the same rate of growth. Despite the two provinces' track records and Hanoi's apparent encouragement, other provinces have been slow to follow or to promote reformers to leadership positions. Despite the Binh Duong/Dong Nai model, steadiness, state control and caution are still seen as the route to job stability by most provincial leaders in Southern Vietnam. End comment.

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